

From Holiday to Harvest: Navigating Ethiopia's New Performance Based Investment Incentive Regulation

Description

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Ethiopia has announced a landmark investment incentive regulation that signals a transformative departure from the previous framework, Investment Incentive Regulation No. 517/2022.

While the earlier regime relied heavily on broad tax holidays and duty-free imports, the new law, regulation no 586/2026 introduces a more nuanced, category-based system designed to align investment promotion with national strategic priorities, such as entrepreneurship, climate sustainability, and capital market development. Unlike the predecessor, which granted blanket exemptions to almost any investor in eligible sectors, this new regime sets reduced tax rates instead of full exemptions and introduces robust compliance mechanisms, including performance agreements and annual audits.

This strategic shift moves the country away from uniform tax holidays toward performance-linked incentives that balance investor attraction with long-term fiscal sustainability.

Central to this new framework is the introduction of a Capital Expenditure Allowance, which permits investors to deduct a fixed percentage of eligible capital and construction expenditures from taxable income, provided they meet a minimum investment threshold of one million dollars in specified sectors.

Furthermore, the regulation provides unprecedented support for the innovation economy; start-ups now benefit from a significantly reduced corporate tax rate of 5% for ten years and a five-year dividend tax exemption for shareholders.

To stimulate venture capital, startup ecosystem builders and investors also enjoy capital gains tax exemptions on the transfer of shares.

Sustainability is similarly embedded into the framework, with companies engaged in carbon trading qualifying for a 15% corporate tax rate for ten years, while firms utilizing over 50% renewable energy or recycled materials are eligible for a reduced 15% rate for five years.

To bolster the domestic financial landscape, the regulation incentivizes participation in the Ethiopian Securities Exchange by offering companies that list their shares a reduced corporate tax rate of 25% for three years, though this excludes financial institutions and over-the-counter trades.

The most generous packages are reserved for Special Economic Zones (SEZs), where developers and operators enjoy 5% corporate tax rates for ten years, dividend tax exemptions for five years, and relief from the Alternative Minimum Tax for a decade.

Enterprises within these zones also benefit from a reduced 15% corporate tax rate, with durations tailored to their specific sectors.

Finally, the regulation signals a commitment to knowledge-based industries by allowing the full deduction of expenditures incurred for scientific research related to a company's business activities. Collectively, these changes redefine the investor-state relationship, requiring meticulous compliance and a measurable contribution to Ethiopia's economic modernization.

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Date Created

March 29, 2026

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